DESCRIPTION OF PROPOSALS
RELATING TO
MIDDLE-INCOME TAX RELIEF
AND ECONOMIC GROWTH

Scheduled for a Hearing

Before the

SENATE COMMITTEE ON FINANCE

on November 26, 1991

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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CONTENTS

Page

INTRODUCTION.. 1

I. SUMMARY OF PROPOSALS.............................. 2

II. DESCRIPTION OF PROPOSALS RELATING TO MIDDLE-INCOME TAX RELIEF AND ECONOMIC GROWTH.............. 3

A. S. 1921 (Senator Bentsen) -- The Tax Fairness and Savings Incentive Act of 1991............ 3

B. S. 1846 (Senator Bradley) -- The Family Tax Relief Act of 1991............................ 9

C. S. 1009 (Senator Coats)........................ 11

D. S. 1411 (Senator Dodd) -- The Middle-Income Tax Relief and Family Preservation Act of 1991.. 12

E. S. 955 (Senator Gore) -- The Working Family Tax Relief Act of 1991........................ 17

F. S. 1013 (Senator Grassley)..................... 23

G. S. 1014 (Senator Grassley)..................... 25

H. S. 1875 (Senator Lieberman).................... 26

I. S. 11 (Senator Moynihan) -- The Social Security Tax Cut Act of 1991.................. 30

J. S. 1984 (Senator Specter) -- The Consumer Confidence and Financial Flexibility Act of 1991.. 32

INTRODUCTION

This document,[1] prepared by the Staff of the Joint Committee on Taxation, provides a description of proposals relating to middle-income tax relief and economic growth, scheduled for a public hearing by the Senate Committee on Finance on November 26, 1991.

Part I is a summary of the proposals. Part II provides a description of the proposals, including present law and effective dates.

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[1] This document may be cited as follows: Joint Committee on Taxation, Description of Proposals Relating to Middle-Income Tax Relief and Economic Growth (JCX-31-91), November 25, 1991.

I. SUMMARY OF PROPOSALS

S. 1921, "The Tax Fairness and Savings Incentive Act of 1991" (Senators Bentsen, Adams, Akaka, Baucus, Boren, Breaux, Burdick, Daschle, DeConcini, Dodd, Ford, Hatch, Inouye, Johnston, Lieberman, Mikulski, Pryor, Roth, and Symms)

The bill would provide a refundable tax credit equal to $300 for each child residing with the taxpayer. The bill would also restore the pre-1986 deduction rules for contributions to individual retirement arrangements (IRAs) and create a new special IRA. Amounts contributed to special IRAs would not be includible in income if held in the special IRA for at least 5 years. Contribution limits for IRAs, special IRAs, and elective deferrals under certain other tax-favored arranges would in coordinated. Individuals would be permitted to transfer amounts in IRAs to special IRAs. The bill would add exemptions to the 10-percent tax on early withdrawals for certain distributions for certain medical expenses, first-time home purchase, and education expenses.

The bill would reduce defense spending in order to offset the cost of the bill's other proposals.

S. 1846, "The Family Tax Relief Act of 1991" (Senator Bradley)

The bill would provide a refundable tax credit equal to $350 for each dependent child under age 18, and would reduce certain spending and modify the budget process to offset the cost of this credit.

S. 1009 (Senators Coats, Burns, Gorton, Hatfield, and Mikulski)

The bill would increase the personal exemption for dependent children under the age of 18 to $4,000 in 1992 and would modify the rounding rules for indexed amounts.

S. 1411, "Middle Income Tax Relief and Family Preservation Act of 1991" (Senator Dodd)

The bill would set the personal exemption to $2,300 in 1992 and would provide an additional personal exemption for certain taxpayers based on the taxpayer's highest marginal tax rate. The bill would also provide an $800 refundable tax credit for children under age 5 that could be claimed in lieu of the personal exemption. The bill would increase individual tax rates, impose a surtax on certain high-income individuals, and increase the corporate tax rate. The bill would also repeal the restrictions on scholarships and fellowships added by the Tax Reform Act of 1986.

S. 955, "Working Family Tax Relief Act of 1991"
(Senators Gore, Bingaman, Cranston, and DeConcini)

The bill would replace the present-law personal exemption for children under 18 with a refundable tax credit. The bill would repeal the young child and supplemental health insurance competent of the earned income tax credit (EITC) and add an additional credit rate for families with three or more qualifying children. The bill would repeal present-law provisions that reduce personal exemptions and itemized deductions for higher-income individuals. The bill would increase individual income tax rates and impose a surtax on high-income individuals.

S. 1013 (Senator Grassley)

The bill would replace the present-law supplemental young child component of the earned income tax credit with an expanded supplemental young child credit available to taxpayers with qualifying children under the age of five.

S. 1014 (Senator Grassley)

The bill would increase the amount of the personal exemption in steps, culminating in an exemption amount of $7,000 for taxable years beginning after December 31, 1999. This personal exemption amount would be indexed for inflation occurring after 1999.

S. 1875 (Senator Lieberman)

The bill would set the regular personal exemption at $2,300 for 1992 and would allow a larger personal exemption in the case of children under the age of 10. Taxpayers who are eligible for the earned income tax credit would be able to claim a refundable tax credit in lieu of the personal exemption.

S. 11, "The Social Security Tax Cut Act of 1991"
(Senators Moynihan, Exon, Hatch, Helms, Hollings, Inouye, Kasten, Pell, Sanford, and Symms)

The bill would reduce the rate of the old age, survivors, and disability insurance portion of the payroll tax over a 5-year period and would increase the taxable wage base over the same period. The tax rate would increase again beginning after 2010.

S. 1984, "Consumer Confidence and Financial Flexibility Act of 1991" (Senators Specter and Domenici)

The bill would permit taxpayers with adjusted gross income below certain levels to make penalty-free withdrawals from individual retirement arrangements and certain pension

plans if the amounts withdrawn are used to purchase or improve real property or to purchase durable goods. The bill would also extend certain expiring provisions.

II. DESCRIPTION OF PROPOSALS

A. S. 1921, "The Tax Fairness and Savings Incentive Act of 1991" (Senators Bentsen, Adams, Akaka, Baucus, Boren, Breaux, Burdick, Daschle, DeConcini, Dodd, Ford, Hatch, Inouye, Johnston, Lieberman, Mikulski, Pryor, Roth, and Symms)

Present Law

Family tax credits

Present law does not provide for tax credits based on the number of dependent children. However, taxpayers with dependent children are generally able to claim a personal exemption for these dependents. The total amount of personal exemptions is subtracted (along with certain other items) from adjusted gross income in arriving at taxable income. The amount of the personal exemption is $2,150 for 1991, and is adjusted for inflation.

In addition, eligible low-income workers may claim a refundable earned income tax credit (EITC) of up to 16.7 percent (17.3 percent for taxpayers with more than 1 qualifying child) of the first $7,140 of earned income for 1991. The maximum amount of credit for 1991 is $1,192 ($1,235 for taxpayers with more than 1 qualifying child), and this maximum is reduced by 11.93 percent (12.36 percent for taxpayers with more than 1 qualifying child) of earned income (or adjusted gross income, if greater) in excess of $11,250. The EITC is not available to workers with earned income (or adjusted gross income, if greater) over $21,245. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table.

Year	One qualifying child		Two or more qualifying children	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992	17.6 %	12.57 %	18.4 %	13.14 %
1993	18.5 %	13.21 %	19.5 %	13.93 %
1994 and after	23.0 %	16.43 %	25.0 %	17.86 %

The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation.

As part of the EITC, a supplemental young child credit is available for qualifying children under the age of one year. This "young child credit" rate is 5 percent and the phase-out rate is 3.57 percent. In addition, a supplemental health insurance credit under the EITC is available to taxpayers who provide health insurance coverage for their qualifying children. The health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. Both supplemental credits are computed on the same base as the ordinary EITC.

Individual retirement arrangements

Under present law, under certain circumstances, an individual is allowed to deduct contributions (up to the lesser of $2,000 or 100 percent of the individual's compensation or earned income) to an individual retirement arrangement (IRA). The amounts held in an IRA, including earnings on contributions, generally are not included in gross income until withdrawn. Withdrawals prior to attainment of age 59-1/2 are generally subject to an additional 10-percent early withdrawal tax.

The $2,000 deduction limit is phased out over certain adjusted gross income (AGI) thresholds if the individual or the individual's spouse is an active participant in an employer-sponsored retirement plan. An individual may make nondeductible IRA contributions (up to the $2,000 or 100 percent of compensation limit) to the extent the individual is not permitted to make or does not make deductible IRA contributions.

The IRA provisions were originally enacted in the Employee Retirement Income Security Act of 1974 (ERISA). Under ERISA, an individual was permitted to make deductible IRA contributions only if the individual was not an active participant in an employer-sponsored retirement plan. The limit on IRA deductions was the lesser of $1,500 or 15 percent of compensation (or earned income, in the case of a self-employed individual).

The Economic Recovery Tax Act of 1981 increased the IRA deduction limit to its current level and removed the restriction on IRA contributions by individuals who were active participants in employer-sponsored plans. The IRA rules in their current form were enacted as part of the Tax Reform Act of 1986.

Explanation of Provisions

Tax credit

The bill would allow taxpayers to claim a refundable tax credit equal to $300 for each qualifying child of the taxpayer. A "qualifying child" would be defined as a child under age 19 who resides with the taxpayer (this definition is used in the EITC eligibility rules). The $300 figure would be adjusted for inflation for taxable years after 1991.

Individual retirement arrangements

The bill would restore the deductibility of IRA contributions for all taxpayers under the rules in effect prior to the Tax Reform Act of 1986 and would index for inflation the limits on contributions to IRAs. In addition, the bill would create a new special IRA to which a taxpayer could make nondeductible contributions. Withdrawals from a special IRA would not be includible in income if attributable to contributions that had been held by the special IRA for at least 5 years. The limits on contributions to deductible IRAs and special IRAs and the limits on elective deferrals under certain other tax-favored arrangements (e.g., section 401(k) plans) would be coordinated.

The bill would permit amounts in IRAs to be transferred to a special IRA. Amounts so transferred generally would be includible in income as if the amounts had been withdrawn from the IRA, except that the early withdrawal tax would not apply. In the case of transfers made before January 1, 1994, the amount includible in income is spread over the 4 taxable years following the transfer.

The bill would allow withdrawals from an IRA and from elective deferrals under (1) a qualified cash or deferred arrangement (sec. 401(k) plan), (2) a tax-sheltered annuity (sec. 403(b)), or (3) a section 501(c)(18) plan. The 10-percent additional income tax on early withdrawals would not apply to such withdrawals to the extent the amount withdrawn is used for the purchase of a first home, for certain education expenses, or for catastrophic medical expenses (i.e., medical expenses in excess of 7.5 percent of AGI). The bill would also provide that the exception to the early withdrawal tax for distributions after age 59-1/2 does not apply to deductible IRAs unless the contributions withdrawn have been in the IRA for at least 5 years before withdrawal.

Reduction in defense spending

The bill would provide for a reduction in defense spending to offset the cost of the proposed tax credit.

Effective Date

The provisions of the bill would generally be effective for taxable years beginning after December 31, 1991, except that the new exceptions to the early withdrawal tax would apply to distributions after the date of enactment.

B. S. 1846, "The Family Tax Relief Act of 1991" (Senator Bradley)

Present Law

Present law does not provide for tax credits based on the number of dependent children. However, taxpayers with dependent children are generally able to claim a personal exemption for these dependents. The total amount of personal exemptions is subtracted (along with certain other items) from adjusted gross income in arriving at taxable income. The amount of the personal exemption is $2150 for 1991, and is adjusted for inflation.

In addition, eligible low-income workers may claim a refundable earned income tax credit (EITC) of up to 16.7 percent (17.3 percent for taxpayers with more than 1 qualifying child) of the first $7,140 of earned income for 1991. The maximum amount of credit for 1991 is $1,192 ($1,235 for taxpayers with more than 1 qualifying child), and this maximum is reduced by 11.93 percent (12.36 percent for taxpayers with more than 1 qualifying child) of earned income (or adjusted gross income, if greater) in excess of $11,250. The EITC is not available to workers with earned income (or adjusted gross income, if greater) over $21,245. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table.

Year	One qualifying child		Two or more qualifying children	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992	17.6 %	12.57 %	18.4 %	13.14 %
1993	18.5 %	13.21 %	19.5 %	13.93 %
1994 and after	23.0 %	16.43 %	25.0 %	17.86 %

The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation.

As part of the EITC, a supplemental young child credit is available for qualifying children under the age of one year. This "young child credit" rate is 5 percent and the phase-out rate is 3.57 percent. In addition, a supplemental health insurance credit under the EITC is available to taxpayers who provide health insurance coverage for their qualifying children. The health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. Both supplemental credits are computed on the same base as the ordinary EITC.

Explanation of Provisions

Tax credit

The bill would allow taxpayers to claim a refundable tax credit equal to $350 for each dependent child of the taxpayer under age 18. The $350 figure would be adjusted for inflation occurring after 1991.

Revenue-raising provisions

The bill would provide for reductions in a number of specified spending categories and for modifications in the Congressional budget process to offset the cost of the proposed tax credit.

Effective Date

The provisions of the bill would be effective for taxable years beginning after December 31, 1991.

C. S. 1009 (Senators Coats, Burns, Gorton, Hatfield, and Mikulski)

Present Law

Personal exemption

Taxpayers are allowed a personal exemption for themselves (and spouse, in the case of a joint return) and for each dependent of the taxpayer. The exemption is structured as a deduction in determining taxable income. The level of the personal exemption was set at $2,000 for taxable years beginning in 1989 and has been indexed for inflation in subsequent years. For taxable years beginning in 1991, the personal exemption is $2,150.

Rounding rules for indexed amounts

In the case of the personal exemption, the standard deduction, the threshold for the limitation on itemized deductions, and the break points for the individual income tax brackets, if any indexed amount is not a multiple of $50, then it is rounded down to the next lowest multiple of $50.

Explanation of Provisions

Increase in personal exemption for certain dependent children

The bill would increase the personal exemption to $4,000 for dependent children under the age of 18 at the end of the taxable year. This amount would be indexed for inflation in subsequent years.

Change in rounding rules for indexed amounts

In the case of the personal exemption, the standard deduction, the threshold for the limitation on itemized deductions, and the break points for the individual income tax brackets, if any indexed amount is not a multiple of $10, then it would be rounded to the nearest multiple of $10. The bill is silent on what would happen if the indexed amount is a multiple of $5, but not of $10.

Effective Date

The bill would be effective for taxable years beginning after December 31, 1991.

D. S. 1411, "Middle Income Tax Relief and Family Preservation Act of 1991" (Senator Dodd)

Present Law

Personal exemption

Taxpayers are allowed a personal exemption for themselves (and spouse, in the case of a joint return) and for each dependent of the taxpayer. The exemption is structured as a deduction in determining taxable income. The level of the personal exemption was set at $2,000 for taxable years beginning in 1989 and has been indexed for inflation in subsequent years. For taxable years beginning in 1991, the personal exemption is $2,150.

Individual income tax rates

For 1991, the individual tax rate schedules are --

If taxable income is:	Then income tax equals:
Single individuals	
$0 - $20,350	15 percent of taxable income
$20,350 - $49,300	$3,052.50 plus 28% of the amount over $20,350
over $49,300	$11,158.50 plus 31% of the amount over $49,300
Heads of households	
$0 - $27,300	15 percent of taxable income
$27,300 - $70,450	$4,095 plus 28% of the amount over $27,300
over $70,450	$16,177 plus 31% of the amount over $70,450
Married individuals filing joint returns	
$0 - $34,000	15 percent of taxable income
$34,000 - $82,150	$5,100 plus 28% of the amount over $34,000
over $82,150	$18,582 plus 31% of the amount over $82,150

Alternative minimum tax

An individual taxpayer is subject to an alternative minimum tax (AMT) if the amount of that tax exceeds the taxpayer's regular tax liability. The AMT rate is 24 percent

and is applied to the taxpayer's alternative minimum taxable income (generally computed by adding preference items to the taxpayer's regular taxable income).

Corporate income tax rates

For 1991, the corporate tax rate schedule is --

If taxable income is:	Then income tax equals:
$0 - $50,000	15 percent of taxable income
$50,000 - $75,000	$7,500 plus 25% of the amount over $50,000
$75,000 - $100,000	$13,750 plus 34% of the amount over $75,000
$100,000 - $335,000	$22,250 plus 39% of the amount over $100,000
over $335,000	34 percent of taxable income

Treatment of scholarships and fellowships

The Code permits an exclusion from gross income for qualified scholarship amounts received by individuals who are degree candidates at an educational institution that normally maintains a regular faculty, curriculum, and enrolled body of students (sec. 117). "Qualified scholarships" are limited to amounts received by an individual as a scholarship or fellowship grant that are used for tuition, fees, books, and supplies required for attendance at the educational institution. As a result of the Tax Reform Act of 1986, amounts received for room and board (or other personal expenses) are included in gross income.

An exclusion from gross income is also provided for certain "qualified tuition reductions," meaning reductions in tuition provided to an employee of an educational institution for the education below the graduate level of the employee (or certain relatives or retired employees) at that institution or another educational institution. This exclusion from gross income is provided for a tuition reduction used for education above the graduate level if provided to a graduate student who is engaged in teaching or research activities.

The exclusion from gross income for qualified scholarships or tuition reductions do not, however, apply to any amount received that represents compensation for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction.

Explanation of Provisions

Personal exemption increase for certain taxpayers

The bill would set the regular personal exemption to $2,300 for taxable years beginning in 1992 and would allow an additional exemption for certain taxpayers. To determine eligibility for the additional exemption, the taxpayer would first calculate his or her taxable income using the regular personal exemption. If the taxable income so determined would be subject to a statutory marginal rate of 15 percent, then the taxpayer would be allowed an additional $1,150 per exemption. If the taxable income so determined would be subject to a statutory marginal rate of 28 percent, then the taxpayer would be allowed an additional $575 per exemption.

All of the amounts above, including the regular personal exemption, would be indexed for inflation in years after 1992.

Credit in lieu of the personal exemption

If the taxpayer has a dependent child under the age of 5 at the end of the taxable year, then the taxpayer would be eligible for an $800 refundable tax credit in lieu of the personal exemption for that child. The amount of the refundable child credit would be indexed for inflation in years after 1992. These indexed amounts would be rounded up to the nearest $10.

Under the bill, the refundable portion of the child credit would be payable in advance for certain taxpayers who elect such treatment. The Treasury Department would be directed to pay such taxpayers approximately 80 percent of the estimated refund in quarterly installments.

Increase in individual tax rates

A 34 percent bracket would apply to taxable incomes above: $160,000 (married individuals filing joint returns); $120,000 (unmarried individuals filing as head of household); $100,000 (unmarried individuals filing single returns); $80,000 (married individuals filing separate returns); and $12,600 (estates and trusts). These thresholds are expressed at 1990 levels and would be adjusted for inflation to 1992 levels.

The alternative minimum tax rate would be increased from 24 percent to 27 percent.

Surtax on high-income individuals

A surtax would apply to individuals (including estates and trusts) with taxable income over $300,000 ($150,000 for married taxpayers filing separate returns). In the case of the regular income tax, the surtax would equal:

(10%)(1 - [$300,000/taxable income])(regular tax liability).

A surtax of 2.5 percent would apply to AMT income above $300,000 ($150,000 for married taxpayers filing separate returns).

In addition, the surtaxes would apply to the 28 percent rate applicable to capital gains income.

Increase in corporate income tax rates

The top marginal rate bracket for corporations (applying to taxable income in excess of $75,000) would be increased to 35 percent. Thus the corporate rate schedule would be changed to the following --

If taxable income is:	Then income tax equals:
$0 - $50,000	15 percent of taxable income
$50,000 - $75,000	$7,500 plus 25% of the amount over $50,000
$75,000 - $100,000	$13,750 plus 35% of the amount over $75,000
$100,000 - $335,000	$22,250 plus 40% of the amount over $100,000
over $335,000	35 percent of taxable income

Exclusion from income for scholarships and fellowships

The bill would repeal the amendments made to section 117 by the Tax Reform Act of 1986 and would return to pre-1986 law, so that:

(1) an unlimited exclusion from gross income would be provided for amounts received by a degree candidate as a scholarship at an educational institution (described in sec. 170(b)(1)(A)(ii)) or fellowship grant, including the value of contributed services and accommodations (i.e., room and board);

(2) an exclusion from gross income would be provided for amounts received incident to a scholarship or fellowship grant to cover expenses for travel, research, clerical help, or equipment;

(3) non-degree candidates could exclude certain scholarships or fellowships from gross income, subject to a limitation that the amount received not exceed $300 multiplied by the number of months for which the recipient received amounts under the scholarship or fellowship;

(4) if teaching, research, or other part-time employment services are required of all candidates for a particular degree (whether or not recipients of scholarship or fellowship grants) as a condition of receiving the degree, then the amount of scholarship or fellowship excludible from gross income would not be reduced by the amount that represents compensation for such services performed by the student; and

(5) certain Federal grants would be excludible from income, even if the recipient is required to perform future services as a Federal employee or to serve as a health professional in designated areas.

Effective Dates

All provisions of the bill except those dealing with scholarships and fellowships would be effective for taxable years beginning after December 31, 1991.

The provision dealing with scholarships and fellowships would be effective for all taxable years beginning after December 31, 1986. In addition, within one year after date of enactment, closed taxable years could be re-opened for taxpayers to claim a refund or credit of any overpayment of tax resulting from the provision relating to scholarships and fellowships.

E. S. 955, "Working Family Tax Relief Act of 1991" (Senators Gore, Bingaman, Cranston, and DeConcini)

Present Law

Personal exemption

Taxpayers are allowed a personal exemption for themselves (and spouse, in the case of a joint return) and for each dependent of the taxpayer. The exemption is structured as a deduction in determining taxable income. The level of the personal exemption was set at $2,000 for taxable years beginning in 1989 and has been indexed for inflation in subsequent years. For taxable years beginning in 1991, the personal exemption is $2,150.

Personal exemption phaseout

Under present law, the deduction for the personal exemptions claimed by a taxpayer is phased out for taxpayers with adjusted gross income (AGI) above a threshold amount. For each $2,500 (or fraction thereof) of AGI above the threshold, the deduction for personal exemptions is reduced by 2 percent. For 1991, the threshold is $150,000 for married individuals filing joint returns, $125,000 for unmarried individuals filing as head of household, and $100,000 for unmarried individuals filing single returns. These threshold figures are to be adjusted for inflation for taxable years after 1991. This provision is effective for taxable years beginning after December 31, 1990, and before January 1, 1996.

Itemized deduction phaseout

Individuals are allowed deductions for certain personal expenses, such as State and local taxes, home mortgage interest, certain medical expenses and casualty losses, and charitable contributions. Under present law, the total of otherwise allowable deductions for these items that may be claimed by a taxpayer is reduced by an amount equal to 3 percent of the taxpayer's AGI in excess of $100,000. In no event may the reduction in itemized deductions exceed 80 percent of otherwise allowable deductions. The $100,000 threshold is adjusted for inflation for taxable years after 1991. This provision is effective for taxable years beginning after December 31, 1990, and before January 1, 1996.

Earned income tax credit

Eligible low-income workers may claim a refundable earned income tax credit (EITC) of up to 16.7 percent (17.3 percent for taxpayers with more than 1 qualifying child) of the first $7,140 of earned income for 1991. The maximum

amount of credit for 1991 is $1,192 ($1,235 for taxpayers with more than 1 qualifying child), and this maximum is reduced by 11.93 percent (12.36 percent for taxpayers with more than 1 qualifying child) of earned income (or adjusted gross income, if greater) in excess of $11,250. The EITC is not available to workers with earned income (or adjusted gross income, if greater) over $21,245. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table.

Year	One qualifying child		Two or more qualifying children	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992	17.6 %	12.57 %	18.4 %	13.14 %
1993	18.5 %	13.21 %	19.5 %	13.93 %
1994 and after	23.0 %	16.43 %	25.0 %	17.86 %

The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation.

As part of the EITC, a supplemental young child credit is available for qualifying children under the age of one year. This "young child credit" rate is 5 percent and the phase-out rate is 3.57 percent. In addition, a supplemental health insurance credit under the EITC is available to taxpayers who provide health insurance coverage for their qualifying children. The health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. Both supplemental credits are computed on the same base as the ordinary EITC.

Individual income tax rates

For 1991, the individual tax rate schedules are --

If taxable income is:	Then income tax equals:
Single individuals	
$0 - $20,350	15 percent of taxable income
$20,350 - $49,300	$3,052.50 plus 28% of the amount over $20,350
over $49,300	$11,158.50 plus 31% of the amount over $49,300
Heads of households	
$0 - $27,300	15 percent of taxable income
$27,300 - $70,450	$4,095 plus 28% of the amount over $27,300
over $70,450	$16,177 plus 31% of the amount over $70,450
Married individuals filing joint returns	
$0 - $34,000	15 percent of taxable income
$34,000 - $82,150	$5,100 plus 28% of the amount over $34,000
over $82,150	$18,582 plus 31% of the amount over $82,150

Alternative minimum tax

An individual taxpayer is subject to an alternative minimum tax (AMT) if the amount of that tax exceeds the taxpayer's regular tax liability. The AMT rate is 24 percent and is applied to the taxpayer's alternative minimum taxable income (generally computed by adding preference items to the taxpayer's regular taxable income).

Explanation of Provisions

Tax credit for dependent children

The bill would replace the current personal exemption for children under age 18 with a refundable tax credit no larger than $800 per child. Each qualifying taxpayer would receive at least a credit of $400. The maximum credit would be equal to 20 percent of earned income (and child support received), not to exceed $800 per child. The $800 and $400 amounts would be indexed for inflation beginning after December 31, 1993.

The refundable portion of the child credit would be payable in advance for certain taxpayers who elect such treatment. The Treasury Department would be directed to pay such taxpayers approximately 80 percent of the estimated refund in quarterly installments.

Simplification and expansion of the EITC

The supplemental young child component of the EITC and the supplemental health insurance component of the EITC would be repealed. An additional credit rate would be added for larger families (those with three or more qualifying children). For 1994 and later years, the EITC schedule would be:

Families with:	Credit rate	Phaseout rate
1 qualifying child	22 %	17 %
2 qualifying children	27 %	17 %
3 or more qualifying children	32 %	17 %

For 1992 and 1993, the credit rates would be somewhat lower as they are phased in over a three-year period.

Repeal of personal exemption phaseout and limitation on itemized deductions

The present-law provisions under which personal exemptions and itemized deductions are either reduced or eliminated for higher income individuals would be repealed.

Revenue offsets[2]

Increased individual income tax rates

The present-law regular tax 31-percent rate would be increased to 32 percent, and a new 35-percent rate would apply to taxable incomes in excess of--

Single individuals	$ 78,400
Heads of household	94,000
Married individuals filing joint returns and certain surviving spouses	110,000
Married individuals filing separate returns	55,000.

The individual alternative minimum tax rate would be increased to 29 percent.

Surtax

An 11-percent surtax would apply to tax attributable to AGI in excess of--

Single individuals	$150,000
Heads of household	200,000
Married individuals filing joint returns and certain surviving spouses	250,000
Married individuals filing separate returns	125,000.

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2 Following introduction, S. 955 was estimated to result in a revenue loss. In July 1991, Senator Gore announced his intention to modify the revenue offset portions of the bill as follows:

a. The 35-percent maximum individual income tax rate would be increased to 36 percent.

b. The 11-percent surtax rate would be increased to 15 percent and the AGI thresholds would be reduced. For example, the new threshold for married individuals filing joint returns would be $200,000.

c. The EITC provisions would be modified by eliminating any family size adjustment (larger credit rates for larger families), and using revenues raised from repeal of the supplemental young child and health insurance components of the EITC to increase the basic credit rate. Under the proposed change, the basic credit rate would be 20 percent for 1992, 22 percent for 1993, and 24 percent for 1994 and thereafter.

Effective Dates[3]

The provisions of the bill would apply to taxable years beginning after December 31, 1991.

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3 In his July 1991 statement, Senator Gore proposed delaying the effective dates of the surtax and the $800 refundable credit to taxable years beginning after December 31, 1992.

F. S. 1013 (Senators Grassley and Coats)

Present Law

Earned income tax credit

Eligible low-income workers may claim a refundable earned income tax credit (EITC) of up to 16.7 percent (17.3 percent for taxpayers with more than 1 qualifying child) of the first $7,140 of earned income for 1991. The maximum amount of credit for 1991 is $1,192 ($1,235 for taxpayers with more than 1 qualifying child), and this maximum is reduced by 11.93 percent (12.36 percent for taxpayers with more than 1 qualifying child) of earned income (or adjusted gross income, if greater) in excess of $11,250. The EITC is not available to workers with earned income (or adjusted gross income, if greater) over $21,245. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table.

Year	One qualifying child		Two or more qualifying children	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992	17.6 %	12.57 %	18.4 %	13.14 %
1993	18.5 %	13.21 %	19.5 %	13.93 %
1994 and after	23.0 %	16.43 %	25.0 %	17.86 %

The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation.

As part of the EITC, a supplemental young child credit is available for qualifying children under the age of one year. This "young child credit" rate is 5 percent and the phase-out rate is 3.57 percent. In addition, a supplemental health insurance credit under the EITC is available to taxpayers who provide health insurance coverage for their qualifying children. The health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. Both

supplemental credits are computed on the same base as the ordinary EITC.

Explanation of Provisions

The bill would replace the present-law supplemental young child credit component of the EITC with an expanded supplemental young child credit available to taxpayers with qualifying children under the age of five. The maximum amount of the credit would be $500 for each qualifying child and the total amount of credit would be phased out ratably for taxpayers with adjusted gross income (AGI) between $50,000 and $60,000 (if greater, earned income would be substituted for AGI). Taxpayers claiming the expanded supplemental young child credit would not be permitted to claim the dependent care credit for expenses related to these children.

Effective Date

The provision is effective for taxable years beginning after December 31, 1991.

G. S. 1014 (Senator Grassley)

Present Law

Taxpayers are allowed a personal exemption for themselves (and spouse, in the case of a joint return) and for each dependent of the taxpayer. The exemption is structured as a deduction in determining taxable income. The level of the personal exemption was set at $2,000 for taxable years beginning in 1989 and has been indexed for inflation in subsequent years. For taxable years beginning in 1991, the personal exemption is $2,150.

Explanation of Provision

The bill would increase the amount of the personal exemption to $7,000 for taxable years beginning after December 31, 1999. The $7,000 figure would be subsequently indexed for inflation, similar to the indexing under current law. For taxable years beginning after December 31, 1991, and before January 1, 2000, the exemption amount would be determined by the following table:

For taxable years beginning in calendar years:	The exemption amount would be:
1992	$2,700
1993	3,200
1994	3,750
1995	4,300
1996	4,850
1997	5,400
1998	5,950
1999	6,500

Effective Date

The provision would be effective for taxable years beginning after December 31, 1991.

H. S. 1875 (Senator Lieberman)

Present Law

Personal exemption

Taxpayers are allowed a personal exemption for themselves (and spouse, in the case of a joint return) and for each dependent of the taxpayer. The exemption is structured as a deduction in determining taxable income. The level of the personal exemption was set at $2,000 for taxable years beginning in 1989 and has been indexed for inflation in subsequent years. For taxable years beginning in 1991, the personal exemption is $2,150.

Personal exemption phaseout

Under present law, the deduction for the personal exemptions claimed by a taxpayer is phased out for taxpayers with adjusted gross income (AGI) above a threshold amount. For each $2,500 (or fraction thereof) of AGI above the threshold, the deduction for personal exemptions is reduced by 2 percent. For 1991, the threshold is $150,000 for married individuals filing joint returns, $125,000 for unmarried individuals filing as head of household, and $100,000 for unmarried individuals filing single returns. These threshold figures are to be adjusted for inflation for taxable years after 1991. This provision is effective for taxable years beginning after December 31, 1990, and before January 1, 1996.

Earned income tax credit

Eligible low-income workers may claim a refundable earned income tax credit (EITC) of up to 16.7 percent (17.3 percent for taxpayers with more than 1 qualifying child) of the first $7,140 of earned income for 1991. The maximum amount of credit for 1991 is $1,192 ($1,235 for taxpayers with more than 1 qualifying child), and this maximum is reduced by 11.93 percent (12.36 percent for taxpayers with more than 1 qualifying child) of earned income (or adjusted gross income, if greater) in excess of $11,250. The EITC is not available to workers with earned income (or adjusted gross income, if greater) over $21,245. Earned income consists of wages, salaries, other employee compensation, and net self-employment income.

The credit rates for the EITC change over time under present law, as shown in the following table.

Year	One qualifying child		Two or more qualifying children	
	Credit rate	Phaseout rate	Credit rate	Phaseout rate
1992	17.6 %	12.57 %	18.4 %	13.14 %
1993	18.5 %	13.21 %	19.5 %	13.93 %
1994 and after	23.0 %	16.43 %	25.0 %	17.86 %

The maximum amount of earned income on which the EITC may be claimed and the income threshold for the phaseout of the EITC are indexed for inflation.

As part of the EITC, a supplemental young child credit is available for qualifying children under the age of one year. This "young child credit" rate is 5 percent and the phase-out rate is 3.57 percent. In addition, a supplemental health insurance credit under the EITC is available to taxpayers who provide health insurance coverage for their qualifying children. The health insurance credit rate is 6 percent and the phase-out rate is 4.285 percent. Both supplemental credits are computed on the same base as the ordinary EITC.

Explanation of Provisions

The bill would set the regular personal exemption to $2,300 for taxable years beginning in 1992 and would allow a larger personal exemption in the case of children under the age of 10 at the end of the taxable year. Taxpayers who are eligible for the EITC would be able to claim a refundable tax credit in lieu of the personal exemption.

Personal exemption for young children

In general

The amount of the personal exemption for a dependent child under the age of 10 would depend upon both the taxpayer's tax bracket and the age of the child. To determine the size of the child's personal exemption, the taxpayer would first calculate his or her taxable income assuming the child received the regular personal exemption

($2,300 for 1992). If the taxable income so determined would be subject to a statutory marginal rate of 15 percent, then the following schedule of child personal exemptions would apply:

Age of child	Child's personal exemption
Under 6	$7,000
6	$6,500
7	$6,000
8	$5,500
9	$5,000

If the taxable income determined above would be subject to a statutory marginal rate of 28 percent, then the following schedule of child personal exemptions would apply:

Age of child	Child's personal exemption
Under 6	$3,750
6	$3,482
7	$3,214
8	$2,946
9	$2,679

If the taxable income so determined would be subject to a statutory marginal rate of 31 percent, then the following schedule of child personal exemptions would apply:

Age of child	Child's personal exemption
Under 6	$3,387
6	$3,145
7	$2,903
8	$2,661
9	$2,419

All of the amounts above, including the regular personal exemption, will be indexed for inflation in years after 1992.

Denial of augmented deduction for high-income taxpayers

If the taxpayer's adjusted gross income exceeds a threshold amount, then only the regular personal exemption could be claimed for each child. (The threshold amount is not defined in the statutory language of the bill, but may be intended to equal that for the personal exemption phaseout.)

Denial of dependent care credit

If the taxpayer has an adjusted gross income below the threshold amount listed above and if the taxpayer claims the augmented personal exemption for a child under the age of 10,

then that child would not be a qualifying individual in determining eligibility for the dependent care credit under Section 21 of the Code.

Credit in lieu of the personal exemption

If the taxpayer is eligible for the EITC, then he or she would also be eligible for a refundable tax credit in lieu of the personal exemption for each child under the age of 10. The amount of the credit would depend upon the age of the child as follows:

Age of child	Refundable child credit
Under 6	$1,050
6	$975
7	$900
8	$825
9	$750

The amounts of the refundable child credit listed above would be indexed for inflation in years after 1992. The indexed amounts would be rounded to the nearest $10 (rounded up if a multiple of $5, but not $10).

The refundable portions of the EITC and child credit would be payable in advance for certain taxpayers who elect such treatment. The Treasury Department would be directed to pay such taxpayers approximately 80 percent of the estimated refund in quarterly installments.

Effective Date

The provisions of the bill would be effective for taxable years beginning after December 31, 1991.

I. S. 11, "The Social Security Tax Cut Act of 1991" (Senators Moynihan, Exon, Hatch, Helms, Hollings, Inouye, Kasten, Pell, Sanford, and Symms)

Present Law

Contributions made under the Federal Insurance Contributions Act (FICA) provide funds to pay monthly benefits to retired or disabled workers and their dependents and to survivors of covered workers. Contributions are based on wages and earnings up to an annual maximum taxable wage base ($53,400 in 1991 for the Old Age, Survivors and Disability Insurance (OASDI) component). Both employers and employees contribute 6.2 percent of the taxable wage and earnings base for the OASDI portion of the payroll tax. Self-employed individuals pay tax at the combined employer-employee rate, but are permitted to deduct one-half of the payment as a business expense in determining their income tax liability.

Explanation of Provisions

The bill would reduce the rate of the OASDI (social security) portion of the payroll tax from the present level of 6.2 percent to 5.2 percent over a five-year period (this rate applies to both the employee and the employer). In addition, the bill would increase the maximum payroll tax base from the present level of $53,400 (for 1991) to $82,200 over the same five-year period. (The intent is to set the maximum payroll tax base for OASDI equal to approximately 90 percent of the total wage and salary payments in the economy. The current level is approximately 85 percent.) Due to the requirement that the Social Security system be in a position to meet all anticipated obligations over a 75-year horizon, OASDI tax rates would substantially increase after 2010, in part to finance the lower OASDI tax rate in the immediate future under the bill.

The following table summarizes the changing OASDI tax rates under the bill. After 1996, the maximum wage base would be adjusted for inflation, similar to the procedure under current law.

Year	Payroll Tax Rate	Maximum Payroll Tax Base
1/91 through 6/91	6.2%	$53,400
7/91 through 12/91	5.7%	$53,400
1992	5.7%	$60,600
1993	5.7%	$64,200
1994	5.5%	$70,200
1995	5.5%	$73,800
1996	5.2%	$82,200
1997 - 2009	5.2%	Adjusted for inflation
2010 - 2014	5.6%	Adjusted for inflation
2015 - 2019	6.2%	Adjusted for inflation
2020 - 2024	6.8%	Adjusted for inflation
2025 - 2029	7.5%	Adjusted for inflation
2030 - 2039	7.8%	Adjusted for inflation
2040 - 2049	7.9%	Adjusted for inflation
2050 and after	8.1%	Adjusted for inflation

Effective Date

The provisions of the bill would be effective for wages and earnings paid after January 1, 1991.

J. S. 1984, "Consumer Confidence and Financial Flexibility Act of 1991", (Senators Specter and Domenici)

Present Law

Taxation of distributions from IRAs and pension plans

Under present law, a distribution from an individual retirement arrangement (IRA) or a qualified retirement plan generally is taxed according to the rules relating to taxation of annuities. That is, the distribution is includible in gross income in the year it is paid, except to the extent the amount distributed represents the employee's investment in the contract (i.e., basis) (secs. 72 and 402). Early distributions from IRAs and qualified plans, including most distributions made other than on account of death before the holder or employee attains age 59-1/2, are subject to an additional 10-percent tax (sec. 72(t)).

In-service distributions of amounts attributable to elective deferrals under a qualified cash-or-deferred arrangement (sec. 401(k)) generally can be made only on account of hardship. The purchase of a principal residence may qualify for a hardship distribution if the distribution is necessary to the purchase.

Expiring provisions

Allocation and apportionment of research expenses

Pursuant to Treasury regulations promulgated in 1977, research and experimentation expenditures are generally allocated as follows: (1) expenses for research that is undertaken solely to meet legal requirements imposed by a government and that cannot reasonably be expected to generate income (beyond de minimis amounts) outside that government's jurisdiction are allocated solely to income from sources within that jurisdiction; and (2) remaining research expenses are generally apportioned to foreign source income based on either (a) gross sales, except that a taxpayer using this method may first apportion at least 30 percent of such expenses exclusively to the source where over 50 percent of the taxpayer's research is performed; or (b) gross income, except that expenses apportioned to U.S. and foreign source income using a gross income method cannot be less than 50 percent of the respective portions that would be apportioned to each income grouping using a combination of the sales and place-of-performance methods.

A statutory allocation rule applies to the taxpayer's first two taxable years beginning after August 1, 1989, and on or before August 1, 1991. In these two taxable years, the statutory allocation rule provided that 64 percent of

U.S.-incurred R&E expenses were allocated to U.S. source income, 64 percent of foreign-incurred R&E expenses are allocated to foreign source income, and the remainder of R&E expenses are allocated and apportioned either on the basis of sales or gross income, but subject to the condition that if income-based apportionment is used, the amount apportioned to foreign source income can be no less than 30 percent of the amount that would have been apportioned to foreign source income had the sales method been used. After August 1, 1991, the R&E allocation regulation applies.

Tax credit for low-income rental housing

A tax credit is allowed in annual installments over ten years for qualifying newly constructed or substantially rehabilitated low-income rental housing. For nonsubsidized qualifying housing, the credit has a present value of 70 percent of the cost of low-income housing units. For housing receiving other Federal subsidies (e.g., tax-exempt bond financing) and for the acquisition cost of existing housing (e.g., costs other than rehabilitation expenditures), the credit has a present value of 30 percent of eligible costs.

For a building to be a qualified low-income building, the building's owner generally must receive a credit allocation from the appropriate State credit authority. An exception is provided for property that is substantially financed with the proceeds of tax-exempt bonds subject to the State's private-activity bond volume limitation. The annual credit ceiling for each State is $1.25 per resident per year.

The low-income housing credit is scheduled to expire on December 31, 1991.

Qualified mortgage bonds and mortgage credit certificates

Qualified mortgage bonds.--Qualified mortgage bonds (QMBs) are bonds whose proceeds are used (net of costs of issuance and a reasonably required reserve fund) to finance the purchase, qualifying rehabilitation, or improvement of single-family, owner-occupied residences located within the jurisdiction of the issuer of the bonds. The QMBs must meet purchase price and income eligibility limitations and other restrictions.

Mortgage credit certificates.--Qualified governmental units may elect to exchange qualified mortgage bond authority for authority to issue mortgage credit certificates (MCCs) (sec. 25). MCCs entitle home buyers to nonrefundable income tax credits for a specified percentage of interest paid on mortgage loans on their principal residences. Once issued, an MCC remains in effect as long as the residence being financed continues to be the certificate-recipient's principal

residence. MCCs are subject to the same targeting requirements as QMBs.

Targeted jobs tax credit

Tax credit.--The targeted jobs tax credit is available on an elective basis to employers who hire individuals from nine targeted groups. The targeted groups consist of individuals who are either recipients of payments under means-tested transfer programs or who are economically disadvantaged or disabled persons.

The credit generally is equal to 40 percent of up to $6,000 of qualified first-year wages paid to a member of a targeted group. Thus, the maximum credit generally is $2,400 per individual. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 40 percent of up to $3,000 of wages, for a maximum credit of $1,200.

The credit expires for individuals who begin work for an employer after December 31, 1991.

Authorization of appropriations.--Present law authorizes appropriations for administrative and publicity expenses relating to the credit through December 31, 1991. These monies are to be used by the Internal Revenue Service and the Department of Labor to inform employers of the credit program.

Explanation of Provisions

Penalty-free withdrawals from IRAs and pension plans

The bill would permit taxpayers whose adjusted gross income (AGI) is below a specified level to receive limited distributions from an IRA, or from amounts attributable to elective deferrals under a qualified cash-or-deferred arrangement (sec. 401(k)), tax-sheltered annuity contract (sec. 403(b)), or plan described in section 501(c)(18), without application of the additional 10-percent tax on early withdrawals. In addition, any amount includible in gross income by reason of such withdrawal would be includible ratably over the 4 taxable years beginning with the taxable year in which the withdrawal occurs. Under the bill, an ordering rule would treat distributions as made first from amounts that are includible in gross income of the individual when distributed.

To qualify for the special tax treatment provided under the bill, distributions would have to be used by the individual receiving the distributions to purchase or improve real property or to purchase durable goods. Each distribution would have to be spent for such purpose within 6

months, or, if earlier, by the date on which the individual files his or her income tax return for the year in which the distribution occurred. Distributions would be eligible for special treatment only to the extent they did not, in the aggregate, exceed $10,000.

Taxpayers would be eligible for the special treatment provided under the bill only if their AGI for their first taxable year beginning in 1991 did not exceed certain limits. Those limits would be $100,000 in the case of married individuals filing a joint return; $50,000 in the case of a married individual filing a separate return; and $75,000 in the case of any other taxpayer.

The special tax treatment provided under the bill would apply only to distributions made during the period beginning on the date of enactment of the bill and ending on December 31, 1992.

One-year extension of expiring provisions

Allocation and apportionment of research expenses

The expired statutory allocation rule would continue to apply to research expenses treated as paid or incurred during the taxpayer's first three taxable years beginning after August 1, 1989, and on or before August 1, 1992.

Tax credit for low-income rental housing

The low-income housing credit would be extended through December 31, 1992.

Qualified mortgage bonds and mortgage credit certificates

The authority of State and local governments to issue tax-exempt qualified mortgage bonds and mortgage credit certificates would be extended through December 31, 1992.

Targeted jobs tax credit

The targeted jobs tax credit would be extended for nine months, so that it would be available with respect to wages paid to employees who begin work for an employer before December 31, 1992.

Effective Date

The provisions of the bill relating to withdrawals from IRAs and qualified pension plans would be effective for withdrawals made after the date of enactment.

The extension of the tax credit for research and experimentation would apply to taxable years beginning after August 1, 1991.

The extension of the tax credit for low-income rental housing would apply to calendar years after 1991.

The extension of the provisions relating to qualified mortgage bonds and certificates would apply to bonds issued after, and elections for periods after, December 31, 1991.

The extension of the targeted jobs tax credit would apply to individuals who begin work for an employer after December 31, 1991.